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**THESIS**

**THE EFFECTS OF CHINA ENTERING THE WORLD  
TRADE ORGANIZATION ON THE SOUTH KOREAN  
WIRELESS TELECOMMUNICATION INDUSTRY**

by

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December 2003

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**THE EFFECTS OF CHINA ENTERING THE WORLD TRADE ORGANIZATION  
ON THE SOUTH KOREAN TELECOMMUNICATION INDUSTRY**

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## **ABSTRACT**

This thesis investigates the effects of China entering the World Trade Organization on the South Korean wireless telecommunication industry. This thesis explores whether the South Korean wireless telecom industry will benefit from China's accession into the WTO. The working hypothesis of the thesis is that South Korean wireless telecom companies will receive far-reaching economic benefit from China's entry into the WTO. Additionally, this thesis explores the effects the entry in the WTO will have on China's telecom policy toward allowing foreign companies to own and operate parts of the wireless telecom network.

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## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	BACKGROUND.....	1
B.	AREA OF RESEARCH.....	2
C.	SCOPE OF THESIS.....	3
D.	RESEARCH QUESTIONS.....	4
II.	CHINA AND THE WORLD TRADE ORGANIZATION.....	5
A.	INTRODUCTION.....	5
B.	THE WORLD TRADE ORGANIZATION.....	6
C.	WHY 15 YEARS FOR CHINA TO ENTER WTO?.....	10
D.	CHINA'S TELECOMMUNICATION COMMITMENTS.....	12
E.	CHINA'S WIRELESS TELCOM COMMITMENTS.....	14
F.	WHAT WTO ACCESSION MEANS FOR CHINA.....	15
G.	CONCLUSION.....	19
III.	CHINA'S TELECOM POLICY TOWARD FOREIGN INVOLVEMENT.....	21
A.	INTRODUCTION.....	21
B.	PRE-1949.....	23
C.	1949 TO 1978.....	27
D.	1978 TO 1993.....	28
E.	1994 TO 1998.....	29
F.	POST-1998.....	34
G.	CONCLUSION.....	38
IV.	EFFECTS ON R.O.K. WIRELESS TELECOM INDUSTRY.....	41
A.	INTRODUCTION.....	41
B.	BACKGROUND ON CHINA'S WIRELESS COMPANIES.....	42
C.	THIRD GENERATION (3G) STANDARDS.....	46
D.	WIRELESS CONTRACTS WITH R.O.K. COMPANIES.....	49
E.	CONCLUSION.....	53
V.	CONCLUSION AND SECURITY IMPLICATIONS.....	57
A.	SUMMARY OF PRINCIPAL CONCLUSIONS.....	57
B.	SECURITY IMPLICATIONS.....	58
C.	RESEARCH ANSWERS.....	59
	LIST OF REFERENCES.....	63
A.	CHAPTER II.....	63
B.	CHAPTER III.....	64
C.	CHAPTER IV.....	66
	INITIAL DISTRIBUTION LIST.....	69

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## LIST OF TABLES

Table 1.	Contracts, Joint Ventures, and Agreements signed between China and R.O.K. wireless companies from 1 Jan 02 to 30 Jul 03 . . . . .	55
Table 2.	Technical Summary between 3G Standards. . . .	56

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## **I. INTRODUCTION**

### **A. BACKGROUND**

China's fifteen-year effort to join the World Trade Organization (WTO) ended on December 11, 2001 when China became an official member of the WTO. No other country's accession into the WTO was as controversial or as prolonged. China negotiated bilateral accession agreements with each existing member as a requirement to join the WTO. The trade agreement between China and the Republic of Korea (R.O.K.) was one of the first trade agreements, signed on September 30, 1992 and coming into effect on October 30, 1992.

Since Deng Xiaoping's push toward market economics in the 1980s, entry into the WTO is the most important milestone in China's integration with the world and will have a profound impact on China's telecommunication (telecom) industry. China's entry into the WTO will no doubt alter current Chinese telecom policy against allowing foreign countries to own or operate parts of the telecom network in order to become compliant under WTO regulations.

Furthermore, R.O.K. wireless telecom companies will likely benefit from China's entry in the WTO due to the lifting of tariffs imposed on the R.O.K. telecom products prior to China's entry into WTO. Additionally, current tariffs will be eliminated by 2005 under the WTO agreement reached between R.O.K. and China.

### **B. AREA OF RESEARCH**

This thesis investigates the effects of China entering the WTO on the R.O.K. wireless telecom industry. Of particular interest, this thesis explores whether the

R.O.K. wireless telecom industry will benefit from China's accession into the WTO. The working hypothesis of the thesis is that R.O.K. wireless telecom companies will receive far-reaching economic benefit from China's entry into the WTO. Additionally, this thesis explores the effects the entry in the WTO will have on China's telecom policy toward allowing foreign companies to own and operate parts of the network.

This thesis consists of five chapters, including this introduction. Chapter II provides background information on the WTO from its beginnings in the failed attempt to create an International Trade Organization to the five functions laid out in the WTO charter. This chapter then discusses why it took China 15 years to become part of the WTO. The third and most important section in this chapter looks at the telecom commitments China made as a precursor to joining the WTO. Particular emphasis is given to China's scheduled commitments on its mobile telecom industry. Lastly, Chapter Two addresses what WTO accession means to China.

Chapter III surveys the historical evolution of Chinese telecom policy toward foreign involvement. It breaks down Chinese telecom policy into five time periods. Particular emphasis is given to the pre-1949 and post-1998 sections. The pre-1949 section recounts foreign companies' abuse of the Chinese telecom industry, which subsequently lead to a xenophobic stance and ban on foreign involvement. Lastly, the post-1998 section demonstrates the dramatic change in Chinese telecom policy toward foreign involvement and the commitments China agreed to as part of entering the WTO.



Chapter IV explores the impact China's joining the WTO is having on R.O.K. wireless telecom companies. Several of the R.O.K. telecom companies are examined with respect to what type and amount of contracts they are signing in China. This chapter assesses whether the R.O.K. companies are truly benefiting from China entry into the WTO and whether the commitments China made as part of the WTO accession agreement are only superficial. Finally, Chapter V offers a summary of principal conclusions and considers the security implications for China of allowing foreign companies to own part of China's telecom network. Lastly, Chapter V summarizes the answers to the research questions.

#### **C. SCOPE OF THESIS**

This thesis attempts to limit the scope of this potentially broad topic by exploring the effects of China entering the WTO on the R.O.K. wireless telecommunication industry. It does not explore the effects on other countries' industries. Additionally, it focuses only on the wireless telecom industry and not on other industries that may fall under the telecommunications realm or WTO. Lastly, this thesis examines the effects of China's telecommunication policy of allowing foreigners to own and operate part China's telecom infrastructure and the security implications associated with the change.

#### **D. RESEARCH QUESTIONS**

There are one primary and three secondary research questions this thesis addresses. The primary research question is whether the R.O.K. wireless telecom industry will benefit from China's accession into the WTO. Even though it has been less than two years since China entered the WTO and many future effects have not been realized, this thesis attempts to measure the benefit to R.O.K.

telecom companies. The first of the secondary questions asks what the security implications of China allowing foreign companies to own part of its network may be? Another secondary question is whether accession into the WTO will change China's telecom policy toward foreign involvement? The last secondary question asks which R.O.K. wireless telecom companies will be affected most by China's accession into the WTO?

## II. CHINA AND THE WTO

### A. INTRODUCTION

China's 15 year effort to join the World Trade Organization (WTO) ended on December 11, 2001 when China became an official member of the WTO.<sup>1</sup> No other country's accession into the WTO was as controversial or as prolonged. China negotiated bilateral trade agreements with each existing member as a requirement to join the WTO. The trade agreement between China and the Republic of Korea was one of the first trade agreements, signed on September 30, 1992 and coming into effect on October 30, 1992.

Rapid progress has been made in several areas between China and the Republic of Korea since the two countries established diplomatic relations on August 24, 1992. Trade between the two countries is one of the areas that has received the biggest impact. Since the establishment of diplomatic relations, both countries have signed a series of agreements, including the agreement on trade cooperation and have expanded two-way trade significantly.

Since China entered the WTO, trade between Korea and China has further expanded. In 2002 alone, 4,008 Korean firms received permission from the Chinese government to invest in the country, with the total investment amount reaching \$5.2 billion.<sup>2</sup> Also, trade between Korea and China was valued at \$44.07 billion, about 800 percent more than

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<sup>1</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm); Internet; accessed 21 January 2002.

<sup>2</sup> Kim, Mi-hui, "Korea's Investment in China tops \$30 billion," The Korea Herald 7 July 2003.

the volume in 1992.<sup>3</sup> The wireless telecom sector is a large part of the expanded trade since China joined the WTO.

This chapter first provides background information on the WTO from its beginnings in the failed attempt to create an International Trade Organization to the five functions laid out in the WTO charter. Next, this chapter discusses why it took China 15 years to become part of the WTO. The third and most important section in this chapter looks at the telecom commitments China made as a precursor to joining the WTO. Particular emphasis is given to China's scheduled commitments on its mobile telecom industry. Lastly, this chapter addresses what WTO accession means to China.

## **B. THE WORLD TRADE ORGANIZATION**

The World Trade Organization was created on January 1, 1995 and marked the biggest reform of international trade since Second World War.<sup>4</sup> The WTO had its beginnings in the failed attempt to create an International Trade Organization (ITO) as part of the 1947 General Agreement on Tariffs and Trade (GATT).<sup>5</sup> Up to 1994, the trading system came under GATT, which was salvaged from the aborted attempt to create the ITO.<sup>6</sup>

From 1948 to 1994, the GATT provided the rules for much of world trade and saw some of the highest growth rates in international commerce during those periods.<sup>7</sup> It seemed well established, but throughout those 47 years, it

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<sup>3</sup> Ibid.

<sup>4</sup> The WTO Homepage, [http://www.wto.org/english/thewto\\_e/thewto\\_e.htm](http://www.wto.org/english/thewto_e/thewto_e.htm); Internet; accessed 21 January 2002.

<sup>5</sup> Panitchpakdi, Supachai and Mark L. Clifford China and the WTO: Changing China, Changing World Trade (Singapore: John Wiley & Sons (Asia) Pte Ltd, 2002), pg 55.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid., pg 56.

was only a temporary agreement. The original intention was to create a third institution handling international economic cooperation, paralleling the World Bank and the International Monetary Fund.<sup>8</sup>

The plan envisioned by over 50 countries was to create an International Trade Organization (ITO) as a specialized agency of the United Nations. However, the draft ITO Charter was too ambitious. It extended way beyond world trade disciplines to include rules on employment, commodity agreements, restrictive business practices, international investment, and services.<sup>9</sup> Even before the charter was finally approved, 23 of the 50 participants decided in 1946 to negotiate to reduce and bind customs tariffs.<sup>10</sup> With the Second World War only recently ended, they wanted to give an early boost to trade liberalization and to begin to correct the legacy of protectionist measures that remained in place from the early 1930s.

This first round of negotiations resulted in 45,000 tariff concessions affecting \$10 billion of trade, about one-fifth of the world's total.<sup>11</sup> The 23 countries also agreed to accept some of the trade rules of the draft ITO Charter. They believed this should be done temporarily in order to protect the value of the tariff concessions they had negotiated.<sup>12</sup> The combined package of trade rules and tariff concessions became known as the General Agreement on Tariffs and Trade signed in 1947, which entered into effect in January 1948, while the ITO Charter was still being

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<sup>8</sup> Ibid.

<sup>9</sup> The WTO Homepage, [http://www.wto.org/english/thewto\\_e/thewto\\_e.htm](http://www.wto.org/english/thewto_e/thewto_e.htm); Internet; accessed 21 January 2002.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

negotiated.<sup>13</sup> The 23 participating members became founding GATT members, officially known as "contracting parties."<sup>14</sup>

Although the ITO Charter was finally endorsed at a UN Conference on Trade and Employment in Havana in March 1948, ratification in some national legislatures proved impossible.<sup>15</sup> The most serious opposition was in the U.S. Congress, even though the U.S. government had been one of the driving forces. In 1950, the U.S. government announced that it would not seek Congressional ratification of the Havana Charter, and the ITO was effectively dead. Even though it was temporary, the GATT remained the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995. The WTO currently has 146 members as of April 4, 2003 and has another 30 trying to get in.<sup>16</sup>

The principal objectives of the WTO include raising standards of living, ensuring full employment, expanding production and trade, and allowing optimal use of the world's resources.<sup>17</sup> Additionally, the WTO applies to production of and trade in services (GATT only spoke of goods) and it states the objective of sustainable development to "seek both to protect and preserve the environment."<sup>18</sup> Furthermore, the WTO recognizes the need for positive efforts to ensure that developing countries "secure a share in international trade commensurate with the needs of their economic development."<sup>19</sup> The way the WTO achieves these objectives is similar to the way the GATT

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

achieved them, through "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations."<sup>20</sup>

The WTO basically has five functions laid out in its charter. First, and most broad, is to "facilitate the implementation, administration, and operation, and further the objectives, of this Agreement and of the Multilateral Trade Agreements" and also to "provide the framework for the implementation, administration and operation of the Plurilateral Trade Agreements."<sup>21</sup> Second, the WTO is to be a negotiating forum. The third and fourth functions of the WTO are to administer the arrangements for the settlements of disputes that may arise between members of the WTO and for the review of trade policies.<sup>22</sup> Finally, the WTO is to co-operate with the International Monetary Fund and the World Bank "with a view to achieving greater coherence in global economic policymaking."<sup>23</sup>

The WTO Agreement provides two ways of becoming a member of the organization. The first "original membership" covers the situation of governments which were contracting parties to the old GATT.<sup>24</sup> However, the possibility by this route was available for only for a limited period. The second approach to membership is "accession" by negotiating the terms of membership with the governments that are already members of the WTO. The

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<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Fewsmith, Joseph, "China and the WTO: The Politics Behind the Agreement," *NBR Publications: NBR Analysis*, Vol. 10 No 5, December 1999, pg 5

conditions for accession are not specified and are vaguely to be "on terms to be agreed between it and the WTO."<sup>25</sup>

However, once membership has been achieved, "original members" of the WTO and "accession members" will be on the same footing, subject to any special terms of accession.<sup>26</sup> Additionally, membership requires all governments ensure the conformity of their laws, regulations and administrative procedures with their obligations under the WTO agreements. This is the primary reason why the WTO will cause major changes in China's telecom policy. China will need to reform many of its telecom laws and policies to become compliant under WTO rules and regulations.

### **C. WHY 15 YEARS FOR CHINA TO ENTER THE WTO?**

China officially applied to the GATT in July 1986 to resume its status as an original "contracting member."<sup>27</sup> However, after the WTO replaced the GATT in 1995, China's application was to become an "accession member" of the global trade organization.<sup>28</sup> China was not officially granted membership until December 11, 2001, thereby taking over 15 years for China to become a member of the WTO, which was longer than any other member to date.

There are a variety of factors that contributed to the delay in membership negotiations. First, China's insistence in "resuming" its status as a former founding member of GATT slowed the process.<sup>29</sup> Secondly, there was the question of if and how China's "socialist market

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<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Panitchpakdi, Supachai and Mark L. Clifford, China and the WTO: Changing China, Changing World Trade (Singapore: John Wiley & Sons (Asia) Pte Ltd, 2002), pg 55.

<sup>28</sup> Ibid., pg 56.

<sup>29</sup> Yang, Yongzheng, "China's WTO accession: why has it taken so long?," *Asia Pacific School of Economics and Management Working Papers* (Asia Pacific Press, 2000), page 8.



economy" could fit into the GATT/WTO system delayed China's accession.<sup>30</sup> Given that the WTO was set up for free market economies, incorporating the largest command economy into the disciplines of free market was no easy task. Thirdly, the division of competences among Chinese ministries and institutions responsible for the process of accession slowed the process.<sup>31</sup> The huge bureaucratic system the Chinese government operates no doubt contributed to the delay. Fourthly, there was the difficult question of whether China should join the WTO as a developing or developed country.<sup>32</sup> The lower down on the economic development chain a country is, the better concessions it will receive in its accession accord. China will enjoy preferential conditions and arrangements, protection of and export subsidies for infant industries. China wanted to enter the WTO as a developing country, whereas several other countries, including the United States, wanted China to enter as a developed country. Lastly, the negotiations with the United States over the bilateral WTO agreement and permanent normal trade relations (PNTR) status slowed the process.<sup>33</sup>

China had to negotiate bilateral agreements with each existing member or invoke Article 13 with the existing member as a requirement to join the WTO.<sup>34</sup> The bilateral WTO agreement with Korea and China was signed on September 30, 1992 and came into force on October 30, 1992. This was

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<sup>30</sup> Ibid.

<sup>31</sup> Ibid., pg 9.

<sup>32</sup> Drysdale, Peter and Ligang Song, China's Entry to the World Trade Organization: Strategic Issues and Quantitative Assessment (New York, NY: Routeledge, 2000), pg 25.

<sup>33</sup> Ibid, page 24.

<sup>34</sup> Magarinos, Carlos, China in the WTO: The Birth of a Catching-Up Strategy (New York, NY: Palgrave MacMillan, 2002), pg 33.

one of the first bilateral agreements China signed with another country. The two countries established diplomatic relations only one month prior.

#### **D. CHINA'S TELECOMMUNICATION COMMITMENTS**

During the bilateral agreement negotiations between the United States and China, intense debate occurred over the tariff levels and foreign ownership percentages for several United States products including agriculture, financial services, and telecommunications.<sup>35</sup> The discussion on telecoms was one of the most intense. Nevertheless, both sides made concessions in the end which resulted in the November 15, 1999 signing of the WTO bilateral agreement by President Clinton.

There were three main commitments China made as part of the preliminary deal between the United States and China. These commitments marked China's first agreement to open its telecoms sector to direct foreign investment. Additionally, one of the key parts of the deal dealt with tariffs on information technology products under the accord, tariffs on computers, semiconductors and internet-related equipment will fall from the current 13.3 percent to zero by 2005.<sup>36</sup> Through these commitments, China will become a member of the Basic Telecoms Agreement, which was originally reached in Geneva in February 1997 among 69 countries to liberalize their telecom service markets for competition.<sup>37</sup>

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<sup>35</sup> Fewsmith, Joseph, "China and the WTO: The Politics Behind the Agreement," *NBR Publications: NBR Analysis*, Vol. 11 No 2, January 2000, pg 5

<sup>36</sup> Summary of the U.S. -China Bilateral WTO Agreement; available from:

[Http://www.uschina.org/public/991115a.html](http://www.uschina.org/public/991115a.html); Internet; accessed 21 January 2002.

<sup>37</sup> Fan, Xing, Communication and Information in China: Regulatory Issues, Strategic Implications

The first commitment involves regulatory principles. It stated that China agrees to implement the pro-competitive regulatory principles of the Basic Telecom Agreement and subsequent Annex A of the Reference Paper on Regulatory Principles,<sup>38</sup> and agrees to technology-neutral scheduling which allow foreign suppliers to use any technology they choose to provide telecom services.<sup>39</sup>

The second commitment involves the geographic scope of services. China will now phase out all geographic restrictions for mobile telecoms in five years. This was further reduced to three years in the EU bilateral agreement with China. Additionally, China's key telecoms services corridor in Beijing, Shanghai, and Guangzhou, which represents approximately 75 percent of all domestic traffic, will open immediately on accession in all telecom services.<sup>40</sup>

The third and most important commitment involved investment. Prior to the agreement, China did not allow foreign investment in telecom services. However, according to the announced agreement, both parties agreed to set the foreign investment cap for operators at 49 percent for foreign ownership in mobile services within five years of accession into the WTO. This was also further reduced to three years in the EU bilateral agreement with China.<sup>41</sup> Furthermore, China and the United States agreed to 49

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(Lanham, MD: University Press of America, 2001), pg 167.

<sup>38</sup> Annex A of the Reference Paper on Regulatory Principles; available from:  
[http://www.itu.int/osg/spu/wtpf/wtpf98/sgreport/2\\_draft/002v2e.html](http://www.itu.int/osg/spu/wtpf/wtpf98/sgreport/2_draft/002v2e.html);  
Internet; accessed 23 January 2002.

<sup>39</sup> Summary of the U.S. -China Bilateral WTO Agreement; available from:

[Http://www.uschina.org/public/991115a.html](http://www.uschina.org/public/991115a.html); Internet; accessed 21 January 2002.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

percent for foreign ownership in international and domestic land and sea (not mobile) services within six years and 49 percent in most other services upon accession. This would allow the Chinese government to maintain majority control. Lastly, the deal called for the cap to be raised to 50 percent after two years for value-added service and paging service.<sup>42</sup>

#### **E. CHINA'S WIRELESS TELECOM COMMITMENTS**

More specifically, China made significant commitments regarding its wireless telecom industry. This is important because China's rapidly growing wireless telecom industry recently passed the United States as the largest mobile market in the world, with over 200 million users.<sup>43</sup> Now, foreign companies will be able to provide all analogue and digital cellular services and personal communications services through joint venture enterprises.

Foreign companies were allowed to hold 25 percent foreign equity share when China first entered the WTO in December 2001.<sup>44</sup> They were allowed 35 percent after one year and will be allowed 49 percent after three years.<sup>45</sup> This is two years faster than was provided for in the bilateral agreement between the United States and China because the European Union (EU) able to negotiate a two-year acceleration of this transition period.

Foreign companies were allowed to provide services in and between Beijing, Shanghai, and Guangzhou upon

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<sup>42</sup> Ibid.

<sup>43</sup> Cai, Yuanzhe, The Transitioning Chinese Telecom Market: A White Paper (Dallas, TX: Parks), pg 1; available from: <http://www.parksassociates.com>; Internet; accessed 15 June 2003.

<sup>44</sup> Ostry, Sylvia, China and the Long March to Global Trade: The accession of China to the World Trade Organization (New York, NY:Routledge, 2002), pg 83.

<sup>45</sup> Ibid.

accession.<sup>46</sup> Additionally, the list was expanded to Chengdu, Chongqing, Dalian, Fuzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shenzhen, Xiamen, Xian, Taiyuan and Wuhan after one year.<sup>47</sup> The area was further expanded nationwide after two years. Again, the EU was able to negotiate immediate access to the Beijing, Shanghai, and Guangzhou inter-city markets. The U.S. bilateral agreement had specified only access to the intra-city markets.

#### **F. WHAT WTO ACCESSION MEANS FOR CHINA**

Twenty-five years ago, the Chinese government initiated the process of transitioning to a market-based economy, allowing private enterprise to resume and making decisions on investment and production. China's international trade responded at once. By 1986, when China first applied to resume its membership in the GATT, exports had grown from 5 to 10 percent of China's GDP, and China accounted for about 1 percent of world exports.<sup>48</sup> Trade had become a key factor in China's further economic growth and development.

Nonetheless, the reform process was still at a relatively early stage. Unless China had been able in 1986 to undertake a massive transformation of its trade regime, it was doubtful that GATT membership at that time could have delivered its full economic benefits to China.<sup>49</sup> A more profound and deeper phase of trade reform was needed to allow the rules-based multilateral trading system to

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<sup>46</sup> *South China Morning Post Internet Edition*, "Beijing to Open Sector Earlier Than Promised," 6 January 2000.

<sup>47</sup> *Ibid.*

<sup>48</sup> Eglin, Richard, "Challenges and Implications of China Joining the WTO," *Kluwer Law International*, June 2000, pg 2.

<sup>49</sup> Cheng, Leonard K., "China's Economic Benefits from Its WTO Membership," *Hong Kong University Center for Economic Development*, December 1999.

play its key roles of guaranteeing China non-discriminatory market access abroad and access to cheaper imports at home.

Since 1986, the process of trade reform has matured considerably, and China's trade performance has reflected this. China's exports today account for over 20 percent of its GDP, and China has become an emerging giant in international trade, accounting for over 3 percent of world exports.<sup>50</sup> This trend is expected to rise in the future.

Additionally, since China entered the WTO, trade between Korea and China has further expanded. In 2002 alone, 4,008 Korean firms received permission from the Chinese government to invest in the country, with the collective investment amount reaching \$5.2 billion.<sup>51</sup> Also, trade between Korea and China was valued at \$44.07 billion, about 800 percent more than the volume in 1992.<sup>52</sup> The wireless telecom sector is a large part of the expanded trade since China joined the WTO.

This truly impressive reform process had to come from within China. It could not have been imposed from the outside. The WTO does not have supranational power; however, it can assist members to maintain the process of trade reform once the political direction has been set. This is the first and perhaps most important benefit the WTO accession will bring China.

Additionally, accession will have a drastic impact on China's legal and administrative framework that protects private rights and private sector activity. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) stipulate adequate protection to intellectual property

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<sup>50</sup> Ibid, page 2.

<sup>51</sup> Kim, Mi-hui, "Korea's Investment in China tops \$30 billion," The Korea Herald 7 July 2003.

<sup>52</sup> Ibid.

rights so that the owners of these rights receive the benefits of their creativity and inventiveness. The TRIPS Agreement covers all seven of the main areas of intellectual property: copyright, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits, trade secrets.<sup>53</sup> In each area, it sets minimum standards of protection and requires governments to provide procedures and remedies so that these standards can be enforced. Lastly, it provides an effective means of settling disputes between member governments.<sup>54</sup>

Accession will also mean that China can replace the bilateral relationships it has used until now to shape its trade with major trading partners with a single, multilateral trade relationship with the rest of the world. Bilateral relationships can be inconsistent and uncertain, thereby increasing risk for producers and investors. It also requires a large amount of time, energy, and effort by government officials to negotiate and administer them. Therefore, the multilateral trade relationships will give China more stable access to foreign markets because it will reduce disruptions in foreign trade that are caused by unpredictable policy shifts. Given this, China will be in a better position to attract foreign investors who use China as their export platform. Additionally, it will also attract foreign investors who feel more secure about developing China's domestic market. Regardless of whether export-oriented or attracted by China's huge domestic market, foreign direct investment (FDI) not only brings in additional capital but, more importantly, technology,

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<sup>53</sup> The WTO Homepage,  
[http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm); Internet;  
accessed 21 January 2002.

<sup>54</sup> Ibid.

market information, and global production and distribution networks that link China more tightly to the other economies.<sup>55</sup>

The WTO rules will also protect China's rights against damaging protectionist policies in overseas markets. China's vulnerability to discriminatory protectionism in its major export markets has grown, along with China's success in increasing its exports over the past 20 years.<sup>56</sup> Were this to continue, and even perhaps escalate in the future if world economic growth were to suffer a serious decline, it could prove a major set-back to China's economic growth a development. However, now that WTO accession is complete, China's exporters will more confidently be able to make long-term business decisions. The more open the Chinese economy becomes, the more China will benefit from the legal security of the rules-based trading system.

China's membership in the WTO will give it a very important voice in helping shape new WTO negotiations, to meet not only China's own needs for its future economic growth and development, but also the needs of other countries as well. Naturally, each WTO member pursues its own export interests as vigorously as possible in a trade negotiation. However, the glue which holds the system together is the realization of each member that its export markets can only grow if producers abroad can increase their exports too. Simply put, a country needs to open up its own market to higher imports if anything is ever to be

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<sup>55</sup> Eglin, Richard, "Challenges and Implications of China Joining the WTO," *Kluwer Law International*, June 2000, pg 3

<sup>56</sup> Cass, Deborah Z., China and the World Trading System: Entering the New Millennium (United Kingdom: Cambridge University Press, 2003), pg 310.



gained. China can expect to bring to the next WTO negotiation and reforming attitude that will make it a very important partner in helping the liberal trading system move forward.

#### **G. CONCLUSION**

The WTO is one of the most important milestone in China's integration with the world and will have profound impact on China's telecom industry. The WTO guarantees globalization of the Chinese economy, the likes of which has never occurred under the PRC regime. Additionally, China hopes that the WTO will create an environment of mutual interest that provides for peaceful development that will have positive and significant influence on the development of Sino-Korean relations. With all the uncertainty over what the WTO will bring to China, the one thing that is for sure is the WTO is going to have a large impact on China's wireless telecom industry.

China made some major commitments regarding its telecom industry and wireless telecom industry. These commitments marked China's first agreement to open its telecom sector to direct investment. Currently, the commitments allow foreign companies to be eligible to own 35 percent of the wireless telecom network nationwide. Starting on December 11, 2004, it will expand to 49 percent of the entire country. However, just because China has agreed to open its wireless telecom industry to foreigners, it still must change its national laws and telecom policy to reflect its WTO commitments.

The next chapter looks at China's telecom policy toward foreign involvement. It will breakdown the history of Chinese telecom policy into five periods to show the background and evolution of Chinese telecom policy toward

foreign involvement. It displays the dramatic and striking change in Chinese telecom policy from not allowing foreigners to invest in China's telecom to actively pursuing foreigners to invest in China telecom industry.

### III. CHINA'S TELECOM POLICY TOWARD FOREIGN INVOLVEMENT

#### A. INTRODUCTION

Since 1949, when the People's Republic of China was founded, China's telecom network ownership has been under strict control. For years, China's policy makers have been very cautious about information and communication. They held a belief that telecom concerns the nation's security and sovereignty; consequently, it could not be opened to the outside world. Therefore, direct foreign investment in telecom service was explicitly prohibited. A regulation of the former Ministry of Posts and Telecommunications (MPT), now known as Ministry of Information Industry (MII) since April 1998, clearly stated that foreign direct investment in telecom was strictly banned:

No organization and individuals outside China or solely foreign-funded enterprises, Sino-foreign joint ventures and cooperative businesses on the territory of China shall invest in, operate or participate in the operation of telecom services in China.<sup>57</sup>

Additionally, the Chinese government has historically taken a conservative attitude toward foreign investment in telecom because Chinese sovereignty was viewed as vulnerable to outside challenge. Furthermore, China has experienced sovereignty disputes involving confrontation with foreign companies that established unpleasant historical precedents. These precedents cast a long shadow, greatly influencing policy of the Chinese government. The result has been that the Chinese

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<sup>57</sup> Lin, Jintong and Xiongjian Liang, Telecommunications in China: Development and Prospects (Huntington, NY: Nova Science Publishers, 2001), pg 139.

government was reluctant to allow foreign companies to take any part in its telecom network.

However, the Chinese government began to liberalize its telecom industry in the 1990s.<sup>58</sup> Beijing knew it needed outside foreign investment in order to help finance the modernization and growth of China's telecom industry. A sweeping change to Chinese telecom policy toward foreign involvement came when China entered the WTO in 2001.<sup>59</sup> Previously, China severely restricted sales of telecom service and barred foreign investment. However, after China entered the WTO, China will allow 49 percent foreign investment in all services, and allow 50 percent foreign ownership in other telecom services in as short as two years. This was a 180-degree turn from Chinese policy a decade earlier.

This chapter breaks down Chinese telecom policy into five periods to show the background and evolution of Chinese telecom policy toward foreign involvement. Particular emphasis is given to the pre-1949 and post-1998 sections. The pre-1949 section demonstrates that foreign companies' abuse of the Chinese telecom industry subsequently led to a xenophobic stance and ban on foreign involvement. The post-1998 section demonstrates the dramatic change in Chinese telecom policy toward foreign involvement and the commitments China agreed to as part of its WTO agreement.

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<sup>58</sup> DeWoskin, Kenneth, "The WTO and the Telecommunications Sector in China, *The China Quarterly*, September 2001, pg 630.

<sup>59</sup> The White House Homepage,  
<http://www.whitehouse.gov/news/releases/2001/12/20011227-1.html>;  
Internet; accessed 21 January 2002.

## **B. PRE-1949**

The 1870s marked the origin of telecommunications in China.<sup>60</sup> Foreign companies effectively dominated the telecom sector due in large part to the undeveloped economy of China and its weak military position at the time. These foreign companies effectively carved up China and divided the spoils amongst themselves. The Chinese government was repeatedly taken advantage of and received the short end of the stick.

In June 1871, the Danish Great Northern Telegraph Company (GNTC) constructed a 2,200-knot cable from Vladivostok via Nagasaki to Shanghai, the first telegraph circuit in China.<sup>61</sup> According to an agreement between Denmark, Britain, and Russia, the GNTC and the British Eastern Extension Australia and China Telegraph Company (EEACT) shared the rights of telecommunications provision in China from 1873 to 1899.<sup>62</sup> Additionally, the coastal area north to Shanghai belonged to the GNTC, while the coastal area south to Hong Kong was under the control of the EEACT. Both companies jointly controlled the coastal area between Shanghai and Hong Kong. The GNTC and EEACT then attempted to restrict the rights of the Chinese government to establish its own submarine telegraph networks. The GNTC presented a proposal to the Qing Dynasty government that claimed exclusive rights to provide telegraph services in the territories where it had installed submarine and land cables when China was

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<sup>60</sup> Yan, Xu and Douglas Pitt, Chinese Telecommunication Policy (Norwood, MA: Artech House, 2002), pg 9.

<sup>61</sup> Ibid.

<sup>62</sup> Baark, E., Lighting Wires: The Telegraph and China's Technological Modernization, Westport, CT: Greenwood Press, 1997, pg 186.

preparing to build such telegraph networks in June 1881.<sup>63</sup> Under the terms of this proposal, no other companies, including those from China, would be licensed to install cables in these areas in the ensuing twenty years.<sup>64</sup> A weak Chinese state was confronted by a strong company that pointed a gun to its head and had no other choice but to accept the proposal.

The GNTC and EEACT expanded their business in the name of repairing damaged circuits in 1900, when several Western countries raised arms against China to halt the Boxer Rebellion. The Chinese Directorate General of Telegraphs was forced to sign a contract to pay the bill for repairing the Chinese Yantai-Dagu-Shanghai submarine cable, which was twice the actual cost for the repair service it did not order, and to give up all its rights to the two companies for thirty years before the bill was paid with 5 percent interest.<sup>65</sup> Additionally, all of the previous contracts between the Qing government and the two companies were automatically extended to the end of 1930.<sup>66</sup>

The GNTC and EEACT also proposed to the Qing government and obtained approval to repair the damaged Tianjin-Beijing land cable and agreed to return it to China after a peace agreement was reached. The two companies, however, used this militarily important cable to bargain with the Qing government after the war and obtained the right to lease two other cables, namely the Beijing-Qiaketu cable to GNTC and the Beijing -Dagu cable to the EEACT,

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<sup>63</sup> Ibid., pg 187.

<sup>64</sup> He, Z., Telecommunications and Development in China (Cresskill, NJ:Hampton Press, 1997), pg 65.

<sup>65</sup> Ibid., pg 66.

<sup>66</sup> Ibid., pg 70.

before it returned the Tianjin-Beijing cable to China.<sup>67</sup> In this way, China lost its control over international telecom, as the Beijing-Qiaketu cable was the gateway connecting China to Europe via Russia.

The foreign companies also began telephone service in China. The GNTC launched its telephone service in Shanghai on February 22, 1882.<sup>68</sup> A British company, Shanghai Mutual Telephone Association, followed two months later. Then in 1883, another British company, the China and Japan Telephone Company, bought the GNTC's network and consolidated it with that of the Mutual Telephone Association.<sup>69</sup> The new company provided telephone service in Shanghai for 18 years until it failed in bidding against the Shanghai Mutual Telephone Company in 1900.<sup>70</sup>

The Qing government gradually realized the importance of telecom. The Qing government made efforts to the development of telegraph and telephone services. A military telegraph circuit connecting Gaoxiong, Taipei, and Jilong in Taiwan was built in 1877 and was the first telegraph that was built independently by China.<sup>71</sup> In 1879, a telegraph linking the office of the head of the Northern Navy in Tianjin with the Dagou and Beitang fortresses and the Tianjin weaponry factory was installed.<sup>72</sup> In 1881, a telegraph circuit between Shanghai and Tianjin was constructed, becoming the first one to provide a public

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<sup>67</sup> Ibid., pg 71.

<sup>68</sup> Maier, John H., "Computer Science and Information Technology in the PRC: The Emergence of Connectivity," *Advances in Computers*, Vol. 27, 1988. pg 364.

<sup>69</sup> Ibid., pg 365.

<sup>70</sup> Yan, Xu and Douglas Pitt, Chinese Telecommunication Policy (Norwood, MA: Artech House, 2002), pg 10.

<sup>71</sup> Ibid.

<sup>72</sup> He, Z., Telecommunications and Development in China (Cresskill, NJ: Hampton Press, 1997), pg 71.

telegraph service.<sup>73</sup> By 1890, local telephone service was available in Beijing, Tianjin, and Nanjing.<sup>74</sup>

Because of a lack of money, the Qing government adopted a policy of commercial operation under governmental supervision at the beginning of 1900. The government established the Ministry of Posts and Transportation on November 6, 1901 as the administrative regulator, and the ministry began to nationalize the telecom industry.<sup>75</sup> The new ministry had bought up all the commercial operations by the end of 1908.<sup>76</sup>

In 1911, the Qing Dynasty was overthrown and China entered an era of political instability which lasted until 1949, when the Chinese Communist Party acceded to power. The period from 1911 to 1949 began with fighting between the Chinese warlords, then unification under the Nationalist for a decade, followed by an 8-year invasion and occupation by Japan. This was succeeded by the civil war between the Communist and Nationalist Parties. This was a destructive period for the development of telecom in China. For example, the total number of local telephone subscribers dropped from 55,683 in 1936 to 7,918 in 1944, while the total length of long-distance circuits dropped from 52,245 km to 4,085 km during the same period.<sup>77</sup>

As the foregoing suggests, the dominance of foreign companies set an unfortunate historical precedent from the 1870s to 1949. The historical precedent led to a highly conservative telecom policy on the part of the People's

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<sup>73</sup> Ibid.,

<sup>74</sup> Ibid., pg 75.

<sup>75</sup> Harwit, Eric, "China's Telecommunications Industry: Development Patterns and Policies," *Pacific Affairs*, Summer 1988, pg 181.

<sup>76</sup> He, Z., Telecommunications and Development in China (Cresskill, NJ:Hampton Press, 1997), pg 76.

<sup>77</sup> Ibid., pg 77.



Republic of China. Beijing viewed telecom as of critical governmental and military importance. The most important long-term policy consequence of the pre-1949 period of foreign domination was that it encouraged extreme reluctance to allow subsequent investment on the part of foreign companies. Early negative experiences with foreign companies taught the Chinese that such companies were exploitative and threatened the sovereignty of the Chinese telecom system.

### **C. 1949 TO 1978**

When the People's Republic of China was founded in 1949, telecom facilities in China were outdated, and many had been damaged or destroyed during the war years. There were only 20,000 telephones and 2,800 trunks for long-distance telephone service throughout the entire country.<sup>78</sup> The infrastructure was also fragmented under the management of different interest groups. The telecom systems lacked interoperability and compatibility and the entire telecom network was in anarchy.

In November 1949, the Ministry of Posts and Telecommunications (MPT) was formally established and took over for the former Ministry of Posts and Transportation.<sup>79</sup> In September 1950, the MPT was restructured along the organizational model of the Soviet Union and existing facilities were repaired.<sup>80</sup> Considerable progress was made toward establishing a long-distance telephone wire network connecting Beijing to provincial capitals with Soviet assistance.

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<sup>78</sup> Wan, S.D., "An Overview of Telecommunications in China," IEEE Communications Magazine, Vol. 31. No. 7, 1993, pg 15.

<sup>79</sup> Lin, Jintong and Xiongjian Liang, Telecommunications in China: Development and Prospects (Huntington, NY: Nova Science Publishers, 2001), pg 139.

<sup>80</sup> Ibid.

However, growth in telecom halted with the general economic collapse caused by the Great Leap Forward from 1958 to 1960, but it revived in the 1960s after the telephone network was expanded and improved equipment was introduced, which included imports of Western plants. Additionally, an important component of the fourth Five-Year Plan, which ran between 1971 and 1975 was a major development program for the telecom system. The program allotted top priority to scarce electronics and construction resources and dramatically improved all aspects of China's telecom capabilities.<sup>81</sup> During this period, all investment in telecom came mainly from the government. Nevertheless, with the limited amount of money, the entire investment in telecom for these 31 years was just 6.4 billion RMB.<sup>82</sup> Additionally, due to the highly centralized planned economy, the telecom sector was operated with very low efficiency, poor technology, and the lowest telephone penetration rate among all Asia countries at 0.43 percent.<sup>83</sup>

#### **D. 1978 TO 1993**

Since the end of the Cultural Revolution in 1976, a considerable amount of economic reforms occurred in the telecom sector. The Third Plenum of the Eleventh Party Congress in December 1978 focused on the "four modernizations" (industry, agriculture, defense, and science/technology).<sup>84</sup> The MPT adopted a system to boost

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<sup>81</sup> Ibid.

<sup>82</sup> He, Xu, "Study of P&T Financing Policies in China," *Research Report of the Ministry of Posts and Telecommunications*, 1996, pg 23.

<sup>83</sup> Lin, Jintong and Xiongjian Liang, Telecommunications in China: Development and Prospects (Huntington, NY: Nova Science Publishers, 2001), pg 139.

<sup>84</sup> Yan, Xu and Douglas Pitt, Chinese Telecommunication Policy (Norwood, MA: Artech House, 2002), pg 18.

productivity and enterprise. In 1982, the Chinese government designated the telecom sector as one having strategic economic significance and granted the MPT preferential treatment in several areas.

These preferential treatments subsidized the development of the MPT and the overall investment during this period reached 90.5 billion RMB.<sup>85</sup> Financing during this period was diversified from previous years. Now sources of money consisted of internal funds, first installation fees, surcharges, and government investment.<sup>86</sup> Lastly, financing was obtained from a series of loans and credits from the World Bank and Asia Development Bank that vastly helped overall investment.

#### **E. 1994 TO 1998**

The development of the Chinese telecom industry underwent drastic changes during this period. During this period, China saw several milestones in the liberalization and modernization of its telecom regulatory environment. First, there were great changes in taxation, fiscal and monetary regulations and the entire Chinese economy was developing into a market economy. Second, China United Telecommunications Corporation (China Unicom) was established on July 19, 1994 as a second telecom carrier in China, competing with the China Telecom in the MPT.<sup>87</sup> After its creation, China Unicom was also licensed for international long-distance service and for the operation of a GSM mobile network which had been formerly controlled by China Telecom. More importantly, it also gained the

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<sup>85</sup> He, Xu., "Study of P&T Financing Policies in China," *Research Report of the Ministry of Posts and Telecommunications*, 1996, pg 26.

<sup>86</sup> Ibid.

<sup>87</sup> Yan, Xu and Douglas Pitt, Chinese Telecommunication Policy (Norwood, MA: Artech House, 2002), pg 49.

right to construct and operate the CDMA network in China.<sup>88</sup> Third, the Organization of Economic Cooperation and Development (OECD) declared that the Chinese telecom sector was economically viable and halted all international loans to China.<sup>89</sup> Fourth, external funds were diminishing and there was less and less regional investment. Now it was practically impossible to place surcharges on customers and installation fees were rapidly decreasing.<sup>90</sup> Lastly, a major reorganization occurred when the MEI and MPT were merged to form the Ministry of Information Industry (MII) in April 1998.<sup>91</sup> This helped provide a more complete separation of the regulatory function from the service provider. The main function of the MII is to make laws and regulations and to act as a regulator through licensing approval, tariff oversight, service quality, maintenance of fair competition, and supervision of interconnection.<sup>92</sup>

Faced with these increasingly tough situations in financing telecom development, China Telecom and China Unicom had to find new solutions. Both companies looked for creative ways to bring in foreign investment. The government's restrictions on foreign direct ownership greatly hindered the ability to attract outside funds. One of the new strategies used by both of China's telecom operators was the use of deferred payment to vendors and leasing facilities. This method became popular in the

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<sup>88</sup> Ostry, Sylvia, China and the Long March to Global Trade: The Accession of China to the WTO (New York, NY: Routledge, 2002), pg 69.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid., pg 70.

<sup>91</sup> Chan, Jeanette K. and Charles F. Goldsmith, "The Regulatory Waiting Game," *The China Business Review*, May/June 1999, vol. 26, no.3, pg 16.

<sup>92</sup> Ibid.

years 1996 to 1998.<sup>93</sup> However, this method was not enough to facilitate the rapid expansion of the network.

Therefore, in March 1997, China Telecom opened a branch in Hong Kong called China Telecom (HK).<sup>94</sup> Its main function was to absorb foreign investment and reinvest it in the Chinese telecom market. China Telecom (HK) was able to sell 2.6 billion shares in Asia, Europe, and North America, and was listed on the Hong Kong and New York stock markets.<sup>95</sup> The capital collected was to be used for development of its mobile communications system in the coming years. However, China Telecom (HK) needed to restructure its capital structure and management system according to international norms in order to meet requirements to sell shares in the New York stock market. The sale was a great success and provided China Telecom with considerable experience with attracting additional foreign capital in the future.

China Unicom on the other hand chose a different approach to raise capital. Its strategy during this period was called the China-China-Foreign (CCF) joint investment system.<sup>96</sup> According to this system, a company owned by the local government or one of China Unicom's shareholders established a joint venture with foreign companies. The objective of this joint venture was similar to the strategy of China Telecom (HK), which was to attract necessary investment funds. It reinvested in the building of its

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<sup>93</sup> Fan, Xing, Communication and Information in China: Regulatory Issues, Strategic Implications (Lanham, MD: University Press of America, 2000), pg 143.

<sup>94</sup> Ostry, Sylvia, China and the Long March to Global Trade: The Accession of China to the WTO (New York, NY: Routledge, 2002), pg 69.

<sup>95</sup> Ibid., pg 70.

<sup>96</sup> Zhang, Bing, "Assessing the WTO Agreements on China's Telecommunication Regulatory Reform and Industrial Liberalization," *Telecommunications Policy*, vol. 25, no. 7, 2001, pg 473.

mobile communications infrastructure, leaving China Unicom responsible for operational management. Cash flows are shared between the joint-venture and China Unicom according to an agreed ratio reached at the beginning of the agreement. Therefore, China Unicom has bypassed the government restrictions on direct foreign ownership. Despite the formal ban, China Unicom has invested \$1.5 billion in around 40 projects through the CCF scheme by April 1998.<sup>97</sup>

However, the MII conducted a review of the CCF of China Unicom, and this system was banned in late 1998.<sup>98</sup> Therefore, China Unicom turned to the Bank of China and received generous loans totaling 5 billion RMB.<sup>99</sup> This would solve the temporary cash requirement of China Unicom. However, its future development depended on whether or not the government would open the door for foreign investment.

During this time, there were clear foreign ambitions to enter the public telecom network because of its great potential for return on investment. The government's restriction of foreign direct ownership did not stop some foreign companies from trying. An example of this was an early trial involving foreign telecom firms involving the offering of call-back service to China.<sup>100</sup> The way the system worked was a resident of China would register his or her phone number with an overseas company. Then the

<sup>97</sup> Cass, Deborah Z., China and the World Trading System: Entering the New Millennium (United Kingdom: Cambridge University Press, 2003), pg 266.

<sup>98</sup> "Foreigners Prohibited From Operating Telecom Network," *Beijing Xinhua* (14 Sept 1999), translated by FBIS-FTS19990914000198, 14 September 1999.

<sup>99</sup> Mueller, Milton, *China in the Information Age: Telecommunication and the Dilemmas of Reform* (Westport, CT: Praeger Publishers, 1997), pg 113.

<sup>100</sup> Yan, Xu, *Chinese Telecommunication Policy*, Norwood, MA: Artech House, 2002, pg 54.

resident would call the company, but only allow the phone to ring a few seconds, when the user wished to make an international call. The company would then call the user back according to the caller's identity code, and the user would call the user back according to the caller's identity code and inform the company of the number with which he wished to be connected. Since the call originated from foreign liberalized markets, the customer would save money. In this way, operators could make profits by exploiting the rate difference between MPT and key foreign firms, thereby competing with MPT through by-passing MPT's international network.<sup>101</sup> However, this service met with a vigorous response from the MPT. In May 1995, the Department of Telecommunications Administration of the MPT issued a statement banning call-back services. The MPT announcement read:

According to the policy of the Chinese government, international telecommunication service (in China) can only be provided by the MPT. No individual or organization, including the reseller, can participate in international telecommunications service provision in any form. Recently, we found that certain foreign companies are advertising in China to provide call-back service. This is a severe violation of China's regulations regarding international telecom services. We solemnly announce that all resale of international service must stop. Users of call back service should stop using that service immediately. Otherwise, we will take necessary measures.<sup>102</sup>

The MPT has successfully prevented foreign direct involvement in its telecom network. One of the rationales to defend this policy, according to Wu Jichuan, former

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<sup>101</sup> Ibid.

<sup>102</sup> Ibid.

Minister of the MII, was the fact that the "posts and telecommunications service is closely connected with the country's political and social activities. It is, therefore, related to the sovereign right of the state, and has to be centrally controlled."<sup>103</sup>

#### **F. POST-1998**

However, since 1999, opportunities for foreign direct investment have significantly changed in China. China has realized it can no longer go about the same path of restricting direct foreign investment because it can longer burden the expense of modernizing its telecom sector alone. Therefore, a trade agreement between China and the Republic of Korea was signed on September 30, 1992, just one month after diplomatic relations were established between the two countries, and came into effect on October 30, 1992.

Additionally, toward the end of the decade, China signed a bilateral agreement with the United States on November 15, 1999 that helped pave the way for China to join the WTO.<sup>104</sup> However, once China became a member of the WTO, the bilateral agreement would become a multilateral agreement with all WTO members. Therefore, South Korea would receive the same commitments as part of the agreement.

There were three main commitments China made as part of the bilateral agreement. These commitments marked China's first agreement to open its telecom sector to direct investment. Additionally, through these commitments, China will become a member of the Basic Telecommunications Agreement (BTA), which was originally

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<sup>103</sup> "Telecommunication Policy," *China Daily*, August 26, 1997.

<sup>104</sup> The White House Homepage,  
<http://www.whitehouse.gov/news/releases/2001/12/20011227-1.html>;  
Internet; accessed 21 January 2002.



reached in Geneva in February 1997 by 69 countries to liberalize their telecom service markets for competition.<sup>105</sup> Tariffs on information technology products, such as computers, semiconductors and internet-related equipment, will fall from the current 13.3 percent to zero by 2005.<sup>106</sup>

The first commitment involved regulatory principles. It stated that China agreed to implement the pro-competitive regulatory principles in the Basic Telecommunication Agreement and subsequent Annex A of the Reference Paper on Regulatory Principles<sup>107</sup>, and it agreed to technology-neutral scheduling which allowed foreign suppliers to use any technology they choose to provide telecom services.<sup>108</sup>

The second commitment involved the geographic scope of services. China will now phase out all geographic restrictions for mobile telecom in three years. Additionally, China's key telecom services corridor in Beijing, Shanghai, and Guangzhou, which represents approximately 75 percent of all domestic traffic, will open immediately on accession in all telecom services.<sup>109</sup>

The third and most important commitment involved investment. Prior to the agreement, China did not allow

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<sup>105</sup> Fan, Xing, Communication and Information in China: Regulatory Issues, Strategic Implications

(Lanham, MD: University Press of America, 2001), pg 167.

<sup>106</sup> Summary of the U.S. -China Bilateral WTO Agreement; available from:

[Http://www.uschina.org/public/991115a.html](http://www.uschina.org/public/991115a.html); Internet; accessed 21 January 2002.

<sup>107</sup> Annex A of the Reference Paper on Regulatory Principles; available from: [http://www.itu.int/osg/spu/wtpf/wtpf98/sgreport/2\\_draft/002v2e.html](http://www.itu.int/osg/spu/wtpf/wtpf98/sgreport/2_draft/002v2e.html); Internet; accessed 22 January 2002.

<sup>108</sup> Summary of the U.S. -China Bilateral WTO Agreement; available from: [Http://www.uschina.org/public/991115a.html](http://www.uschina.org/public/991115a.html); Internet; accessed 21 January 2002.

<sup>109</sup> Ibid.

foreign investment in telecom services. However, according to the announced agreement, both parties agreed to set the foreign investment cap for operators at 49 percent for foreign ownership in mobile services within five years of accession into the WTO and further reduced to three years with the E.U. bilateral agreement with China.<sup>110</sup> Furthermore, China agreed to 49 percent for foreign ownership in international and domestic land and sea (not mobile) services within six years and 49 percent in most other services upon accession. This would allow the Chinese government to maintain majority control. Lastly, the deal called for the cap to be raised to 50 percent after two years for value-added service and paging service.<sup>111</sup>

China's entry into the WTO on December 11, 2001 has significant implications for the telecom sector. First, and foremost, China now has the opportunity to receive plenty of investment for the telecom sector, which is in drastic need of foreign direct investment. The Chinese government will now be partly relieved of the heavy burden of investing in this capital-intensive industry. It makes sense for the Chinese government to allow private and foreign investors to help pay for upgrading its telecom on this promising industry instead of continuously injecting billions of its own funds that could be used elsewhere.

Secondly, Chinese customers will benefit from enhanced competition in a variety of services. So far, customers have already benefited by competition between China Telecom and China Unicom in the wireless telecom industry. As a result, customers will enjoy more efficient and more

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<sup>110</sup> Ibid.

<sup>111</sup> Ibid.

economic services with the freedom to make choices. Foreign companies will further increase competition in the wireless telecom industry.

Thirdly, China's commitment to the WTO's General Agreement on Trade in Service (GATS), which was discussed in the last chapter, will put the Chinese telecom regulatory system on the right track. China recently published its first blanket provision over network interconnection. It is very similar to the principles of the GATS and Reference Paper of the WTO which is based on the experience of such countries as the United Kingdom and the United States.<sup>112</sup>

However, China's regulations and telecom policy were still not in line with the new commitments it was obligated to under WTO rules. Therefore, China's MII, the country's key telecom regulatory body, submitted to the State Council the Telecommunications Regulation of the People's Republic of China, which contain 11 chapters and 82 articles of regulations.<sup>113</sup> Once the State Council approved them on September 20, 2000, they became China's first comprehensive set of telecom regulations. MII drafted the regulations with the goal to making them compatible with the rules of the WTO.

Now, for the first time, foreign participation in China's telecom services market is allowed under Chinese regulations. Foreign investors have to set up joint ventures with Chinese companies and can only be a minority party in the joint venture, according to a separate but

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<sup>112</sup> Zhang, Bing and Mike W. Pegg, "Telecom competition, post-WTO style," *The China Business Review*, May/June 2000, vol 27, no. 3, pg 12.

<sup>113</sup> Horsley, Jamie P., "PRC Regulation of Foreign Telecom Equipment and the WTO," *The China Business Review*, Sept/Oct 2001, vol. 28, no 5, pg 66.

related document drafted by MII entitled "Regulations on Foreign Invested Telecommunications Enterprises."<sup>114</sup> The chairman of the board of directors must be appointed and the general manager must be recommended by the Chinese investor. Foreign companies must also demonstrate "sound performance and experience in the industry," which will give Chinese authorities great flexibility in deciding which company should receive licenses.<sup>115</sup>

Unbelievably, despite the recent regulations from the MII, the National People's Congress has yet to pass a comprehensive and workable telecom law. China has been working on a telecom law for over 20 years.<sup>116</sup> Bureaucratic competition among the various companies in China's telecom industry has stalled efforts to finalize a draft. As a result, China's telecom industry has been governed by pieced-together administrative regulations.

MII and China's legislators should gain valuable experience through the implementation of the previous telecom regulations. This will allow the adoption of a comprehensive and workable telecom law by the National People's Congress. The MII stated in March 2001 that the law should be available within two to four years.<sup>117</sup> Most likely, the long-awaited telecom law will likely be based heavily on the Telecom Regulations.

#### **G. CONCLUSION**

Chinese telecom policy toward foreign involvement has changed considerably in recent years. Clearly, China's

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<sup>114</sup> Horsley, Jamie P., "China's New Telecommunications Regulations and the WTO," *The China Business Review*, July/ August 2001, vol. 28, no 4, pg 34.

<sup>115</sup> Ibid.

<sup>116</sup> Ibid, pg 41.

<sup>117</sup> Ibid.

telecom policy has come a long way, from not allowing foreign investment to allowing up to 50 percent foreign investment in some areas. Chinese telecom policy mirrors developments in the wider society, and telecom policy outcomes reflect the huge liberalizing changes coming from within the society.

Increased demand for telecom services and the need to modernize its outdated infrastructure drove China to rethink the policy of allowing foreign investors own part of the telecom network. However, in the end, the increased financing, investment and the new technology China would gain from the new policy outweighed the disadvantages. However, there are still many Chinese who are still skeptical about the change for national security reasons, especially because of the history China has had with mistreatment and subjugation by foreign powers.

The question now is, who will take advantage of this change in telecom policy? China's 1.3 billion population has appeared to be a lucrative market for R.O.K. investors. There will no doubt be intense competition to see who will eventually become the industry leader in the wireless telecom industry. The next chapter addresses which R.O.K. companies will be affected most and will explore if the South Korean wireless telecom industry will benefit from China's accession into the WTO.

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#### IV. EFFECTS ON R.O.K. WIRELESS TELECOM INDUSTRY

##### A. INTRODUCTION

In 2002, China passed the United States to become the largest wireless telephone industry in the world, with over 200 million mobile phone subscribers among a population of over 1.3 billion.<sup>118</sup> Today, there are over 230 million mobile phone subscribers in China<sup>119</sup>, and analysts predict that China's wireless telephone industry will eventually be twice the size of those in Europe and the United States combined. Additionally, China's Ministry of Information Industry predicts that China will have over 400 million subscribers by the end of 2005.<sup>120</sup>

Studies have also shown that the number of mobile phone subscribers will exceed that of fixed-line telephone users sometime before 2004.<sup>121</sup> Wireless networks have been successful in China, as other parts of Asia and other developing countries, because of the fact that they can be installed more quickly and at a lower price per subscriber than fixed-line systems. Additionally, an estimated 40 percent of Chinese villages are not connected by the country's fixed-line network.<sup>122</sup>

The question that remains is who will capitalize on China's vast opportunity in the wireless telecom industry? Since China became a full member of the WTO in December

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<sup>118</sup> Lin-Liu, Jen, "Who will get China's 3G dowry," *IEEE Spectrum*, April 2003, vol. 40, issue 4, pg 16.

<sup>119</sup> The MII Homepage, <http://www.mii.gov.cn>; Internet; accessed 15 Aug 03.

<sup>120</sup> Leopold, George, "Wireless Vendors Eye China's Market," *Electronic Engineering Times*, 11 March 2002, issue 1209, pg 4.

<sup>121</sup> Cai, Michael, "The Chinese Telecom Market Still Promises Tremendous Opportunities," *Parks Associates*, April 2003, pg 1.

<sup>122</sup> "Mobile-Phone Companies See Vast Opportunity in China," *Evening Standard* (U.K.) 23 January 2002.

2001 and opened its telecom industry up to the rest of the world it has seen dramatic changes. There are several R.O.K. wireless telecom companies that are attempting to benefit from a more open China with respect to its telecom industry.

This chapter first provides some background information on China's four wireless companies that have a license from the Chinese government to operate mobile telephones. Next, this chapter discusses the different third generation (3G) technologies that the MII is looking to employ in China's wireless telecom future. This will have a major impact on which South Korean companies, if any, will benefit from the important future decision. The last section of this chapter explores which R.O.K. companies have been receiving contracts and making joint ventures with China's wireless telecom companies in the period from December 2001 to June 2003.

#### **B. BACKGROUND ON CHINA'S WIRELESS COMPANIES**

There are currently four wireless companies that have a license to operate a wireless telephone network from the Chinese government: China Mobile Communication Corporation (China Mobile), China United Telecommunication Corp (China Unicom), China Telecommunications Corporation (China Telecom), China Netcom Group.<sup>123</sup> China Mobile recently dethroned United Kingdom's wireless giant Vodafone as the world's largest mobile phone carrier in September 2002, with over 123 million users.<sup>124</sup> China Unicom is currently the world's third largest mobile phone carrier, with over

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<sup>123</sup> Statham, Jack, "Breakup of China State Telecom Monopolies Signals Major Restructuring," *Sunday Business* 19 May 2002, London edition.

<sup>124</sup> Pringle, David, "Vodafone's Gent Puts Successor on the Line," *Wall Street Journal* 31 July 2003, Eastern edition: pg B3.



107 million users.<sup>125</sup> China Telecom, once the nation's monopoly provider of fixed-line local and long distance phone service, now operates mobile phone networks in 21 provinces in the south and west. Lastly, its newly created competitor, China Netcom, operates mobile networks in 10 provinces in northern China.

In 1999, the Chinese government decided to split the state-owned monopoly telecom service provider China Telecom into four companies to promote greater competition in the domestic telecom sector and prepare its telecom industry for the impact of China's entry into the WTO. Each of the four companies was chartered to concentrate on a different telecom sector. The first company kept the name China Telecom and concentrated on the fixed-line telephone industry. China Mobile, the second company, concentrated on the wireless telecom industry. China Satellite Transmission (ChinaSat) and Guoxin Paging were the last two companies created and concentrated on the satellite and paging industry, respectively.

Therefore, China Mobile, formerly a subsidiary and the most profitable arm of China Telecom, was officially introduced to the world as its own entity in 1999. The GSM (Global System for Mobile Communications) technology that was first developed in Europe in the early 1980s was the primary standard it used for its mobile phone telecoms. China Mobile currently boasts more than 123 million users that represent over 70 percent of the Chinese wireless telecom industry, which not only makes it China's largest wireless telecom provider but also the world's largest

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<sup>125</sup> The MII Homepage, <http://www.mii.gov.cn>; Internet; accessed 15 Aug 03.

wireless operator.<sup>126</sup> Ironically, Vodafone purchased a 2.1 percent stake in China Mobile in Oct 2000 for \$3.7 billion.<sup>127</sup>

China Unicom was established in 1994 by the former Ministry of Electronics (MoE), the Ministry of Electronic Power and the Ministry of Railway as a competitor to China Telecom, which was then owned by the former Ministry of Posts and Telecommunications (MPT). Currently, China Unicom is the second largest wireless telecom operator in China with over 107 million users that represent a little under 30 percent of the Chinese wireless telecom industry.<sup>128</sup>

China Unicom offers a full range of telecommunication services, such as wireless, paging, long distance, satellite, and data and Internet services. However, it receives its primary revenue from the wireless telecom industry. China Unicom announced in late 2001 that it had started a new wireless network based on code division multiple access (CDMA) technology.<sup>129</sup> This was in addition to its other wireless network based on GSM technology. The CDMA network was an attempt to bring a higher quality signal to China and to take wireless phone subscribers away from bigger rival China Mobile.<sup>130</sup> It has been successful and has allowed China Unicom to cut into China Mobile's market share in the last couple of years. Additionally,

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<sup>126</sup> Ibid.

<sup>127</sup> Pringle, David, "Vodafone's Gent Puts Successor on the Line," Wall Street Journal 31 July 20003, Eastern edition: pg B3.

<sup>128</sup> The MII Homepage, <http://www.mii.gov.cn/>; Internet; accessed 15 August 03.

<sup>129</sup> "China Unicom to Begin New Wireless Network Next Week," *Business Daily Update* 24 December 2001.

<sup>130</sup> Gesteland, Lester J., "China Unicom signs US\$1.5B in CDMA equipment deals with foreign, local suppliers," *ChinaOnline* 15 May 2001.

China Unicom enjoys a preferential policy that enables it to charge 10 percent less than China Mobile for its services.<sup>131</sup> The price advantage also helped attract many new GSM subscribers away from China Mobile. China Unicom aims to have 150 million mobile subscribers by 2005, with over half of these users anticipated to be CDMA users.<sup>132</sup>

China Telecom was again split in May 2002 along geographic lines. In 1999, the Chinese government stripped away the wireless, paging, and satellite business from Telecom and made the company primarily a monopoly of fixed-line telephone networks and services. This time 30 percent of its network resources and ten subsidiaries in northern China were merged into China Netcom Group.<sup>133</sup> The remaining 21 subsidiaries in southern China retained 70 percent of the networks and formed the new China Telecom Group.<sup>134</sup> Though the primary charter for China Netcom and China Telecom is to operate fixed-line telephones in China, the Chinese government has also granted both companies licenses to operate wireless networks in China to further increase the competition.

Both China Telecom and China Netcom have been using a wireless technology developed by UTStarcom, based in Alameda, California, called personal access system (PAS) to extend their services.<sup>135</sup> The technology was primarily introduced into China's rural area as a supplement to

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<sup>131</sup> Lin, Albert, "Navigating China's Unpredictable Telecom Waves," *Wireless Data News*, 9 April 2003, vol. 11, issue 7, pg 1.

<sup>132</sup> Dickie, Mure, "3G means it's getting crowded in paradise," *Financial Times* 8 August 2003, London Edition: pg 29.

<sup>133</sup> Statham, Jack, "Breakup of China State Telecom Monopolies Signals Major Restructuring," *Sunday Business* 19 May 2002, London edition.

<sup>134</sup> Ibid.

<sup>135</sup> "UTStarcom Mines China Market," *Communications Today* 28 March 2002.

fixed-line systems. Marketed as a low-cost investment option for wireless local telephone service, the PAS system features advanced voice and data services within a flexible network architecture that can be seamlessly integrated with future 3G and broadband technologies. With this technology, China Telecom and China Netcom have signed up over 13 million Chinese consumers.<sup>136</sup>

### **C. THIRD GENERATION (3G) STANDARDS**

3G stands for third generation and is a wireless industry term for a collection of international standards and technologies aimed at increasing efficiency and improving the performance of mobile wireless networks. 3G wireless services offer enhancements to current applications, including greater data speeds, increased capacity for voice and data, and the advent of packet data networks versus today's switched networks. As second-generation (2G) wireless networks evolve into third-generation systems around the globe, operators are working hard to enable 2G and 3G compatibility.

3G is a generic term covering a range of future wireless network technologies. There are several 3G technologies available, but the most popular and the ones China is looking to employ include WCDMA, CDMA2000, and TD-SCDMA.<sup>137</sup> Despite any benefits that either system has over the other, the author does not foresee any major service provider of GSM switching to CDMA2000 or an IS-95 provider switching to TD-SCMA or WCDMA. The cost of installing or replacing an entire base station is too much, considering that most base stations are relatively new. More than

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<sup>136</sup> Ibid.

<sup>137</sup> Krikke, Jan, "Fortunes Changing in Asia," *Wireless Week* 19 August 2002, available from <http://www.wirelessweek.com>; Internet; accessed 14 August 2003.

likely, the service provider will chose a 3G cellular system that provides some backward compatibility for their current customers and equipment.

The current hot topic in China's wireless industry is 3G licenses. The Chinese government remains undecided regarding which 3G technology it will adopt as a national standard.<sup>138</sup> China will not start issuing 3G mobile licenses until 2004 or 2005 because the industry and network standards are still immature.<sup>139</sup> 3G mobile networks would not start replacing existing mobile communications until 2006.<sup>140</sup>

There are three 3G standards China is currently looking to employ. The first is wideband CDMA (W-CDMA, a GSM development), which is a version developed and primarily used in Europe. The second is CDMA2000, which is a version developed in the United States by San Diego based Qualcomm. Lastly, the China Academy of Telecommunications Technology (CATT) forged a joint venture with Germany's Siemens and developed a domestic 3G digital mobile network based on time division-synchronous CDMA (TD-SCDMA) technology. A technical summary of the three 3G standards China is currently looking to employ can be seen in Table 2 at the end of this chapter.

CATT officials argue that the country should adopt TD-SCDMA as the national 3G standard to avoid becoming a battlefield for overseas companies.<sup>141</sup> Furthermore, TD-

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<sup>138</sup> Lens, Michel, "3G in China Awaits Government Decisions; Another Golden Egg?," *Global Wireless* 22 November 2002; pg 1.

<sup>139</sup> Lin, Albert, "Navigating China's Unpredictable Telecom Waves," *Wireless Data News*, 9 April 2003, vol. 11, issue 7, pg 1.

<sup>140</sup> Ibid.

<sup>141</sup> McCall, Margo, "China: Land of Dwindling Opportunity," *Wireless Week* 4 February 2002, available from <http://www.wirelessweek.com>; Internet; accessed 14 August 2003.

SCDMA adheres to international standards and has been approved by the International Telecommunications Union. The Chinese government, conscious of its huge market and loath to pay royalties to foreign companies, continues to invest in TD-SCDMA technology and will continue to aggressively promote its use as the future 3G standard for China.

Chinese officials responsible for planning the release of 3G wireless networks in China have submitted three options to Beijing for consideration. The first proposal would allow operators total freedom to deploy any 3G standard. The second recommendation would see China Telecom and China Netcom being awarded licenses for the Chinese TD-SCDMA technology. China Mobile would then deploy W-CDMA and China Unicom to implement CDMA2000. In the final option, China Telecom and China Netcom are restricted to just one standard but would still need to deploy TD-SCDMA in certain districts as the main network system.<sup>142</sup>

However, the first option is not expected to be chosen, since the Chinese have already invested over \$55 million in developing the domestic TD-SCDMA standard and would want some operators to adopt the technology.<sup>143</sup> China Mobile has already indicated plans to migrate from GSM to W-CDMA.<sup>144</sup> The company plans on rolling out its W-CDMA

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<sup>142</sup> "Chinese propose three options for the adoption of 3G," available from: [http://www.3gnewsroom.com/3g\\_news/jan\\_03/news\\_2978.shtml](http://www.3gnewsroom.com/3g_news/jan_03/news_2978.shtml); Internet; accessed 17 August 2003.

<sup>143</sup> Chakraborty, Pradeep, "3G Operators Will Find It Hard To Ignore TD-SCDMA," *Wireless Week* 2 December 2001, available from <http://www.wirelessweek.com>; Internet; accessed 14 August 2003.

<sup>144</sup> "China: GSM Spending Continues Downward," *Wireless Week* 15 February 2003, available from <http://www.wirelessweek.com>; Internet; accessed 14 August 2003.

network as soon as 3G licenses are awarded. China Unicom has also chosen not to adopt the TD-SCDMA standard and has chosen to upgrade its CDMA network to a CDMA 2000 network, instead.<sup>145</sup> Therefore, most likely China Telecom and China Netcom will be forced to deploy the TD-SCDMA in some capacity. The MII is expected to provide some financial incentives for the licensed companies to build their TD-SCDMA networks.

#### **D. WIRELESS CONTRACTS WITH SOUTH KOREAN COMPANIES**

China has become an extremely competitive market for the world's largest telecommunication companies. There are over 50 foreign companies that are involved in some form with telecommunication operations in China. However, this thesis concentrates only on the South Korean companies involved in some form in China's wireless telecommunications.

Since China Unicom started to construct the country's first CDMA network, operators in South Korea have targeted the network as their entrance to China. South Korea was quick to adopt the CDMA technology and has relatively more experience in operating such networks. With over 30 million subscribers and a penetration rate of over two-thirds of the population (some have estimated the penetration rate to reach 80% of the population in 2004) and a single technology standard, CDMA, South Korean companies have immeasurable knowledge in CDMA networks.

Demand for wireless telecom equipment exceeds China's production capabilities, resulting in increasing demand for imports and foreign investment in manufacturing. Until recently, profits have largely been limited to fees rather

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<sup>145</sup> "Lucent Technologies Signs Second Phase CDMA Wireless Contract with China Unicom," Lucent Press Release 21 October 2002, available from <http://www.lucent.com/press/1002/021021.nsa.html>.

than revenues. However, since China joined the WTO, foreign companies can now form joint ventures with Chinese companies. There have been several joint ventures established between South Korean companies and Chinese companies in the field of wireless telecom. A complete list of contracts, joint ventures, and agreements signed between South Korean companies and Chinese companies from Jan 2002 to July 2003 is appended as Table 1 at the end of this chapter.

There have been a total of 13 contracts, joint ventures, or agreements signed with South Korean companies during that time, valued over \$702 million. However, in reality, there were probably some contracts that were not made public, and so the total value of the contracts could be double the above value since some of the contracts did not disclose or estimate a value of the contract. Additionally, these contracts only represent only a fraction of the contracts awarded worldwide. Alcatel, Ericsson, Hauwei, Lucent, Motorola, NEC, Nokia, Nortel, Siemens, Qualcomm and many other foreign companies have all received substantial contracts from China Mobile, China Unicom, China Netcom, and China Telecom.

South Korean telecom companies have made a good start in tapping China's wireless market. Though it will take time for this market to mature, South Korean telecom companies have a strong advantage over other companies for one primary reason. R.O.K. companies have been pioneers in using and marketing CDMA technology and their knowledge will be useful as they seek opportunity in China for the first time.

The R.O.K. company that has probably benefited the most from the new WTO regulations allowing joint ventures



is Samsung Electronics. Samsung Electronics employs approximately 64,000 people in 89 offices in 47 countries.<sup>146</sup> Samsung signed the largest South Korean wireless supply contract with a Chinese company in the past year when it signed a \$500 million contract to provide CDMA equipment for CDMA networks with China Unicom on May 11, 2003. Additionally, it signed a supply contract with China Unicom to deliver over 700,000 CDMA handsets the prior year. Samsung has also been involved in several lucrative joint ventures with Chinese Datang Mobile to deliver a TD-SCDMA chipset and design 3G mobile phones. The value of those joint ventures was not released to the public.

Samsung first achieved success in China in 1997, when it won the largest of four Chinese government contracts to supply CDMA hardware to develop wireless communications networks in Shanghai and Tianjin.<sup>147</sup> In cooperation with Shanghai Great Wall Mobile Communications, Samsung supplied the hardware and network capability to offer wireless service to 67 base stations in Shanghai and 11 in Tianjin. Later, in October of 2000, Samsung opened a \$3 million research center for CDMA technology in Beijing's Zhongguancun Technology Park for future operations in China.<sup>148</sup> Samsung aims to reach \$6 billion in total sales in China this year, after recording about \$5 billion in sales in 2002.<sup>149</sup>

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<sup>146</sup> "Datang Mobile, Philips, and Samsung Form Joint Venture to Deliver Cellular TD-SCDMA Chipset & Reference Design," *Internet Wire* 20 January 2003.

<sup>147</sup> Cooper, Caroline, "South Korea's Telecom Ambitions," *The China Business Review*, January/February 2001, vol. 28, no.1, pg 30.

<sup>148</sup> Ibid

<sup>149</sup> "Korean Firms Go for Gold in China," *The Korean Herald* July 8, 2003.

Though Samsung Electronics is the clear leader in the wireless sector, other South Korean telecommunications companies have done well in China. SK Telecom is currently the biggest CDMA carrier in the world, with over 15 million subscribers, and has formed a strategic alliance with China Unicom.<sup>150</sup> SK Telecom's joint venture with China Unicom on January 16, 2002 to provide wireless Internet service was the first joint venture China signed with a foreign company since joining the WTO. Since then it has gone on to sign several other joint ventures with China Unicom and Dong-Fang Telecom. Additionally, SK Telecom signed a memorandum of agreement with China Netcom for \$100 million to help establish wireless broadband services across China.

In the future, SK Telecom may have an advantage over other South Korean companies in providing CDMA service in China, thanks to its 51 percent stake in service provider Shinsegi. Analysts have been paying close attention to the ongoing consolidation of South Korea's wireless service industry, but this consolidation is particularly important because China Unicom has also expressed interest in establishing an alliance with Shinsegi to develop CDMA service systems.<sup>151</sup>

There are a number of other South Korean companies that have sought to invest in China's CDMA market and have received lucrative contracts and joint ventures. First, LG Group is another South Korean conglomerate that has made inroads into China's growing CDMA market. LG Electronics has been exporting networking equipment to China since

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<sup>150</sup> "Japan, South Korea Prepare to Enter China IT Market," Beijing China Daily (30 Oct 01), translated by FBIS-CPP20011031000024, 10 Oct 2001.

<sup>151</sup> Cooper, Caroline, "South Korea's Telecom Ambitions," *The China Business Review*, January/February 2001, vol. 28, no.1, pg 31.

1999. Later in February 2000, LG announced that it would provide CDMA technology to China Unicom, enabling Unicom to become the first Chinese company to commercialize CDMA service in Sichuan Province.

Telson Electronics is one of South Korea's major producers of CDMA. The company was established in 1992 and currently has 750 employees who have been exporting telecommunications products to China since 1994. Telson received a \$84 million contract on May 27, 2003 to supply mobile handsets to China Electronics.

Lastly, Youngwoo Telecom, Com2uS and SK Teletech have all made joint ventures or supply contracts with Chinese companies. Youngwoo entered into a joint venture with Nigbo on January 21, 2002 to produce components for wireless telecom equipment. SK Teletech received a supply contract to produce one million CDMA handsets for China Unicom later that year. Lastly, Com2uS received a supply contract with China Unicom to help provide CDMA technology.

#### **E. CONCLUSION**

Samsung, SK Telecom and LG Group are the South Korean wireless telecom companies that have benefited the most from China joining the WTO. This analysis is based on supply and equipment contracts, along with joint ventures, that the companies made with Chinese wireless companies. Additionally, Youngwoo Telecom, SK Teletech, Com2uS and Telson Electronics have all entered into joint ventures and supply contracts with Chinese wireless firms that will prove to be beneficial in the future.

However, it is surprising that more South Korean wireless telecom companies have not entered into more joint ventures with Chinese firms. Less than two years after China's admission to the WTO, the widely anticipated

"foreign invasion" has not happened due partly to the severe downturn in the telecom industry and concerns over Chinese regulations and returns for foreign investment. There were only seven publicly disclosed joint ventures between South Korean wireless companies and Chinese firms from January 2002 to July 2003.

Many South Korean wireless companies are waiting to see which direction China is heading for its future 3G wireless standard. An announcement is expected by the end of 2003 or early 2004 which 3G wireless standard China is going to use. However, most likely, the Chinese government will issue licenses for three different 3G standards. China Unicom will most likely adopt CDMA2000 as its future 3G standard due to backward compatibility issues. Additionally, China Mobile will probably adopt W-CDMA for the same reasons. Nevertheless, the Chinese government has invested millions of dollars into its own domestic 3G standard, TD-SCDMA; therefore, some Chinese wireless company will likely receive a license to operate it.

China has the world's largest cellular networks market in the world and continues to increase its lead. Additionally, only 16.2 percent of the population owns a wireless phone, so there is still plenty of room for growth.<sup>152</sup> During 2002, an average of five million new wireless subscribers were added monthly.<sup>153</sup> It is no wonder why so many foreign wireless companies want to try and enter this promising market.

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<sup>152</sup> The MII Homepage, <http://www.mii.gov.cn>; Internet; accessed 15 August 03.

<sup>153</sup> Cai, Michael, "The Chinese Telecom Market Still Promises Tremendous Opportunities," Parks Associates, April 2003, pg 2.

<u>Date</u>	<u>Type</u>	<u>ROK Company</u>	<u>Chinese Company</u>	<u>Amount</u>	<u>Description</u>
16-Jan-02	Joint Venture (49:51)	SK Telecom	China Unicom	#	First time China signed JV with foreign company since joining WTO. Provide wireless Internet service.
21-Jan-02	Join Venture (41:8:51)	Youngwoo Telecom and Hanbit I&T	Ningbo	\$2m	JV to produce components for Wireless Telecom equipment
2-Oct-02	Supply Contract	Samsung	China Unicom	#	Provide 700k CDMA handsets
14-Oct-02	Supply Contract	SK Teletech	China Unicom	#	Provide 1m CDMA handsets
4-Jan-03	Joint Venture (49:51)	Samsung	Datang Mobile	#	Deliver a TD-SCDMA chipset and reference design.
20-Mar-03	MoU	SK Telecom	China Netcom	\$100m	Establish alliance to cross-market wireless broadband services across region
21-Mar-03	Joint Venture (49:51)	SK Telecom	China Unicom	\$6m	Provide mobile Internet service
31-Mar-03	Joint Venture	Samsung	Datang Mobile	#	Design 3G mobile phones.
4-Apr-03	Supply Contract	Com2uS	China Unicom	#	Provide BREW technology
11-May-03	Supply Contract	Samsung	China Unicom	\$500m	Provide equipment for CDMA networks
27-May-03	Supply Contract	Telson Electronics	China Electronics	\$84m	Supply GPRS mobile handsets
5-Jun-03	Joint Venture	SK Telecom	Dong-Fang Telecom	\$10m	Carry out cellular service marketing activities in China
4-Jul-03	Joint Venture	SK Telecom	China Unicom	#	Provide China Unicom with consulting and training in the wireless Internet business
<b>Total</b>	<b>13 Contract, JV, and MoU signed</b>			<b>\$702m</b>	
				# = Undisclosed Value (in millions)	
Sources: The Economist Intelligence Unit Ltd, rcnews.com, and various newspaper and magazine articles					

**Table 1.** Contracts, Joint Ventures, and Agreements signed between China and R.O.K. wireless companies from 1 January 02 to 30 July 03.

### **CDMA Technical Summary**

**Frequency band:** Any existing band.

**Minimum frequency band required:** 1x: 2x1.25MHz, 3x: 2x3.75

**Chip rate:** 1x: 1.2288, 3x: 3.6864 Mcps

**Maximum user data rate:** 1x: 144 kbps now, 307 kbps in the future 1xEV-DO: max 384 kbps - 2.4 Mbps, 1xEV-DV: 4.8 Mbps.

**Frame length:** 5ms, 10ms or 20ms

**Power control rate:** 800 Hz

**Spreading factors:** 4 ... 256 UL

### **W-CDMA Technical Summary**

**Frequency band:** 1920 MHz - 1980 MHz and 2110 MHz - 2170 MHz

**Minimum frequency band required:** ~ 2x5MHz

**Frequency re-use:** 1

**Carrier Spacing:** 4.4MHz - 5.2 MHz

**Maximum number of (voice) channels on 2x5MHz:** ~196

**Maximum user data rate (Physical channel):** ~ 2.3Mbps (spreading factor 4, parallel codes (3 DL / 6 UL), 1/2 rate coding), but interference limited.

**Frame length:** 10ms (38400 chips)

**Number of slots / frame:** 15

**Power control period:** Time slot = 1500 Hz rate

### **TD-SCMA Technical Summary**

**Frequency band:** 2010 MHz - 2025 MHz in China (WLL 1900 MHz - 1920 MHz)

**Minimum frequency band required:** 1.6MHz

**Frequency re-use:** 1 (or 3)

**Chip rate:** 1.28 Mcps

**Frame length:** 10ms

**Number of slots:** 7

**Modulation:** QPSK or 8-PSK

**Voice data rate:** 8kbit/s

**Circuit switched services:** 12.2 kbits/s, 64 kbits/s, 144 kbits/s, 384 kbits/s, 2048 kbits/s

**Packet data:** 9.6kbits/s, 64kbits/s, 144kbits/s, 384kbits/s, 2048kbits/s

**Number of slots / frame:** 7

**Frame length:** 5ms

**Multi carrier option**

**Smart antennas**

**Uplink synchronisation**

Source: <http://www.umtsworld.com/technology/tdscdma.htm>; Internet; Accessed 14 November 2003

**Table 2.** Technical Summary between 3G Standards

## **V. CONCLUSION AND SECURITY IMPLICATIONS**

### **A. SUMMARY OF PRINCIPAL CONCLUSIONS**

This thesis first covered China's long entry into the WTO. It showed that the WTO is one of the most important milestones in China's integration with the world and will have profound impact on China's wireless telecom industry. The WTO guarantees globalization of the Chinese economy, the likes of which has never occurred in that country. Additionally, China hopes the WTO will create an environment of mutual interest that provides for peaceful development and that will also have positive and significant influence on the development of Sino-R.O.K. relations. With all the uncertainty over what the WTO will bring to China, the one thing for sure is that the WTO is going to have a large impact on China's wireless telecom industry.

China has made some major commitments regarding its telecom industry and wireless telecom industry. These commitments marked China's first agreement to open its telecom sector to direct investment. Foreign companies were allowed to hold 25 percent foreign equity share when China first entered the WTO in December 2001. They were allowed 35 percent after one year and will be allowed 49 percent after three years.

Additionally, Chinese telecom policy toward foreign involvement has changed considerably in recent years to reflect its WTO commitments. Clearly, China's telecom policy has come a long way, from not allowing foreign investment to allowing up to 50 percent foreign investment in some areas. Chinese telecom policy mirrors developments

in the wider society, and telecom policy outcomes reflect the huge liberalizing changes coming from within the society.

Increased demand for telecom services and the need to modernize its outdated infrastructure drove China to rethink the policy of allowing foreign investors own part of the telecom network. However, in the end, the increased financing, investment and the new technology China would gain from the new policy outweighed the disadvantages. However, there are still many Chinese who remain skeptical about the change for national security reasons, especially because of the history China has had with mistreatment and subjugation by foreign powers.

#### **B. SECURITY IMPLICATIONS**

There are many people in China who have concerns that China's national security might be threatened by allowing foreign direct investment in its network. That is, foreign ownership of telecommunications facilities might allow state secrets to leak out of China. Additionally, the telecommunications infrastructure might escape national control during a national emergency, such as a war.

However, concerns that national security will be threatened by foreign direct investment are greatly exaggerated. First, no foreign company will be able to own its own independent wireless telecommunication network in China. It simply is not cost effective for a foreign company to develop its own infrastructure to operate its own telecommunication network in China. Therefore, the best a foreign company can do is establish joint ventures with Chinese companies. Yet, by Chinese regulations, foreign companies can only control a maximum of 50 percent



in those joint ventures, and they can only be a minority party in those operations.

The most effective way to protect national secrets is to properly protect the information resource rather than the transmission instrument. Therefore, encrypting the data is a much more effective way to protect national security. Additionally, experience in other countries shows ownership of telecommunications infrastructure is not a foolproof method of safeguarding state secrets. It did not stop Japanese diplomats from transmitting encoded messages about the imminent attack on Pearl Harbor in 1941 from the United States to Tokyo over facilities operated by American-owned telegraph carriers.

### **C. RESEARCH ANSWERS**

The primary research question of this thesis is whether the R.O.K. wireless telecom industry has benefited from China entering the WTO. Even though it has been less than two years since China joined the WTO, it is safe to say that both China and South Korea have benefited. China is updating and expanding its wireless telecommunication networks and is very much benefiting from the advanced technology it is receiving from foreign companies. South Korea is receiving supply and equipment contracts worth almost one billion dollars. Additionally, South Korea has received several lucrative joint ventures with Chinese companies since China's accession into the WTO and many more will be made once China decides on its future 3G standard.

The first secondary question about the security implications of China allowing foreign companies to own part of its network has also been answered. The most effective way to protect national secrets is to properly

protect the information resource rather than the transmission instrument. Therefore, if China has national secrets it does not want foreign countries to hear, then encrypting the data is the most effective way to protect national security.

The second secondary question about whether accession into the WTO will change China telecom policy toward foreign involvement has also been answered. Chinese telecom policy toward foreign involvement has changed considerably in recent years to reflect its WTO commitments. China went from not allowing foreign companies to allowing up to 50 percent foreign investment in some areas. China will also further strengthen those regulations and policies with actual laws in the near future. China's new telecommunication laws are due out in the very near future.

Finally, the last secondary question about which R.O.K. wireless telecom companies will be affected most by China's accession into the WTO has been answered. Samsung Electronics is the leading South Korean company dealing with China. This analysis is based on supply and equipment contracts, along with joint ventures, that the company has made with Chinese wireless companies. Additionally, SK Telecom, Youngwoo Telecom, SK Teletech, Com2uS and Telson Electronics have all entered into contracts with Chinese wireless firms that will prove to be beneficial in the future.

However, it is surprising more South Korean wireless telecom companies have not entered into more joint ventures with Chinese firms. Less than two years after China's admission to the WTO, the widely anticipated "foreign invasion" did not happen due partly to the severe downturn

in the telecom industry and concerns over Chinese regulations and returns for foreign investment. There have been only seven joint ventures between South Korean wireless companies and Chinese firms from January 2002 to July 2003.

Many South Korean wireless companies are waiting to see which direction China is heading with respect to its future 3G wireless standard. An announcement is expected by the end of 2003 or early 2004 which 3G wireless standard China is going to use. However, most likely, the Chinese government will issue licenses for three different 3G standards. China Unicom will most likely adopt CDMA2000 as its future 3G standard due to backward compatibility issues. Additionally, China Mobile will probably adopt W-CDMA for the same reasons. Nevertheless, the Chinese government has invested millions of dollars into its domestic 3G standard, TD-SCDMA; therefore, some Chinese wireless company will likely receive a license to operate it.

China has the largest cellular networks market in the world and continues to increase its lead. Currently, there are over 230 million mobile phone subscribers in China but only a 16.2 percent penetration rate. Analysts therefore predict that China will eventually be twice the size of the industries in Europe and the United States combined. There is no doubt plenty of room for South Korean wireless telecommunication companies to get a piece of the lucrative Chinese wireless telecommunication pie.

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